Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington DC 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing an Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Lifeline and Link-Up	)	WC Docket No. 03-109

COMMENTS OF HARGRAY TELEPHONE COMPANY

David H. Armistead
General Counsel
Hargray Telephone Company
856 William Hilton Parkway
Hilton Head Island, SC 29938
Tel: (843) 686-1123
Fax: (843) 686-1373

Gerard J. Waldron
Elizabeth H. Canter
Covington & Burling LLP
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
Tel: (202) 662-6000
Fax: (202) 778-5444

Counsel for Hargray Telephone Company

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SUMMARY

Hargray Telephone Company ("Hargray") supports the goals of the Commission in this proceeding, including promoting broadband investment and adoption, controlling the size of the Universal Service Fund ("USF"), and ensuring that all consumers continue to have access to reliable telecommunications services. To accomplish these objectives, Hargray, which serves as the carrier of last resort for sections of Jasper and Beaufort Counties in South Carolina, proposes the Broadband Incentive Plan ("BIP"), under which the Commission would consolidate high cost support mechanisms[1] and freeze support levels for each recipient on a per access line and per broadband line basis using 2011 USF revenue. The plan also includes a weighting factor for higher speed broadband services and requires recipients to assume carrier of last resort status for broadband services. The BIP is designed as a bridge that would permit a smooth transition to the Connect America Fund ("CAF") once adopted by the Commission.

By adopting the BIP, the Commission will accomplish the following:

Promote broadband investment, economic stimulus, and job growth by:

1. Enabling investment in broadband infrastructure *and* deployment of affordable broadband services that will help stimulate the economy;
2. Establishing carrier of last resort obligations for broadband to ensure widespread availability of those services; and
3. Maintaining support for carriers that are today relying on USF to invest in communications infrastructure to provide broadband, generate jobs and spur economic development in communities that have been under increasing economic pressure.

[1] Interstate Common Line Settlement support ("ICLS"), High Cost Loop Support ("HCLS"), Local Switching Support ("LSS"), and Safety Net Additive support ("SNA").

Allow consumer choice to direct what services the fund supports by:

1. Shifting support between voice and broadband services as consumer demand for those services shift; and
2. Ensuring that consumers who need and rely on voice services continue to have access to those services at affordable rates.

Manage the size of and burdens associated with the fund by:

1. Reducing funds supporting voice-only services consistent with loss of access lines;
2. Eliminating tie between support and amount of money spent by support recipient;
3. Immediately eliminating significant complexity associated with management and administration of fund, thus reducing the burdens on FCC, NECA, USAC, and recipients.

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COMMENTS OF HARGRAY TELEPHONE COMPANY

Hargray Telephone Company ("Hargray") commends the Commission for initiating an important debate in the above-captioned Notice of Proposed Rulemaking ("NPRM"). Hargray, which serves as a carrier of last resort in sections of Jasper and Beaufort Counties in South Carolina, and provides both broadband and voice services to those areas, submits these comments to propose a plan offering immediate and necessary reform of the universal service program while promoting investment in affordable broadband services. By adopting this Broadband Incentive Plan ("BIP"), the Commission will preserve and build on the economic growth, job creation and other benefits that have been fostered by the existing program; enable broadband deployments that would not otherwise have been made; and control both the size of, and the significant burdens associated with, the current USF program.

INTRODUCTION

In the NPRM, the Commission seeks to achieve the important goals of "advancing broadband service to all Americans; sustaining high-quality, reliable voice service for all Americans; sustaining and expanding mobile voice and mobile broadband coverage throughout the country; increasing adoption of advanced communications services; and minimizing the burden on consumers and businesses, who pay for universal service."[2] To achieve each of these objectives without placing at risk the significant advancements and economic benefits provided today by fund recipients like Hargray, the BIP combines existing support mechanisms — Interstate Common Line Settlement support ("ICLS"), Interstate Access Support ("IAS"), High Cost Loop Support ("HCLS"), Local Switching Support ("LSS"), and Safety Net Additive support ("SNA")— and freezes support levels for each recipient on a per access line/per broadband line basis using 2011 USF revenue. Under the BIP, recipients of these funds would assume carrier of last resort status for broadband services in their study areas.

By including broadband lines in the support calculation, the Commission will enable recipients to deploy affordable broadband services to households and businesses in high cost areas — the economic benefits of which have been well-established by this Commission and others. In addition, the plan includes a weighting factor for higher speed broadband services to provide further incentive for carriers to upgrade broadband networks and available broadband

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[2] *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing an Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up*, *Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, at para. 16 (Feb. 9, 2011) ("*NPRM*").

speeds so that these areas keep pace with technological advancements that demand more and more bandwidth. More detail on the plan is included below and attached as Appendix A.

The BIP has many advantages beyond enabling the deployment of affordable broadband services in high cost areas: it imposes a meaningful check on the size of the USF by removing the link between support and the amount of money spent by the recipient; it begins to shift the focus of support away from voice-only access lines that are becoming increasingly less important to consumers; and it ensures consumers in high cost areas continue to have access to reliable telephone services by providing predictable and stable support for those services based on the number of access lines in service. Unlike many other proposals, the BIP also provides a simple and straightforward mechanism for reform that the Commission can immediately implement and, in the process, dramatically reduce the administrative burdens associated with the program.

Hargray's proposal accomplishes these objectives in a way that avoids counterproductive reductions in funding to current recipients, who, in many cases, are using those funds to meet the Commission's broadband goals (and are thereby providing jobs and spurring economic growth within their communities). Proposals aimed primarily at reducing these USF funds without balancing the other objectives put forward by this Commission threaten to undo the incredible progress made by these companies by risking their viability and their ability to maintain and further invest in broadband infrastructure vital to both wireline and wireless service. By compromising the ability of rural carriers to maintain existing investments and make further investments in both broadband and basic communications infrastructure in rural and high cost America, these proposals fail to strike the balance sought by the Commission in this proceeding. In contrast, the BIP leverages the benefits provided by the existing program by establishing a mechanism that enables recipients to make additional investment in reliable and robust

broadband services throughout America. At a time when both the public and private sector are desperately searching for ways to create and preserve jobs and economic growth, the Commission can little afford to take a chance at reducing investment in our communications infrastructure and curtailing job and economic growth in the process.

I. THE BIP APPROPRIATELY BALANCES THE OBJECTIVES OF THE FCC IN THIS PROCEEDING.

As the Commission has said, "[USF] reforms must balance a number of . . . important and possibly competing priorities. These priorities include advancing broadband service to all Americans; sustaining high-quality, reliable voice service for all Americans; sustaining and expanding mobile voice and mobile broadband coverage throughout the country; increasing adoption of advanced communications services; and minimizing the burden on consumers and businesses, who pay for universal service."[3] These objectives surely are all important, and any reform must ensure a proper balancing of these sometimes competing priorities. The BIP enables the Commission to maintain universal access to reliable and affordable telecommunications services and, at the same time, "promote accountability and efficiency [and] encourage targeted investment in broadband infrastructure."[4]

A. Overview Of The Broadband Incentive Plan.

To achieve reforms to the USF program in a manner that accomplishes the goals set forth in the NPRM, Hargray proposes that, beginning January 1, 2012, the Commission freeze all USF revenue requirements for recipients on a per line basis for both voice and broadband lines, using

[3] *NPRM/FNPRM*, at para. 16.

[4] *Id.* at para. 9.

2011 USF revenue and year-end access and high speed data line counts.[5] Because support for voice lines would be frozen at 2011 support (calculated on a per line basis), the amount of support associated with voice-only services would drop over time consistent with the industry trend of declining voice lines.[6]

By including high speed data lines in the support calculation, the Commission will enable recipients to deploy affordable broadband services to households and businesses in high cost areas. Although support for broadband service will also be frozen on a per broadband line basis using 2011 revenue requirements and broadband line counts, recipients will receive support for broadband deployments within their study areas to the extent those services can and are purchased by consumers. In turn, recipients will assume broadband carrier of last resort status under the BIP. The plan also includes a weighting factor for higher speed broadband services that will provide for greater per line support for higher bandwidth lines. The weighting factors are set forth in the schedule in Appendix A. Through this weighting mechanism, the BIP will enable carriers to further upgrade broadband networks and available broadband speeds so that carriers' communities of service keep pace with technological advancements that demand more and more bandwidth. Moreover, because support will be based on services that are in fact purchased by consumers, carriers will have incentives to offer *affordable* broadband services. Overall USF support will decline to the extent recipients are unable to offset voice line losses by increasing broadband deployment within study areas.

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[5] This would exclude Lifeline and Link Up Support.

[6] *See* note 19, *infra.*

The BIP is designed as a bridge that would permit a smooth transition to the CAF. Depending on the duration of this bridge period, the Commission could reexamine the weighting factors periodically to determine whether the schedule remains appropriate.

B. The BIP Will Promote Job Growth And Economic Stimulus By Shifting Support To Encourage Affordable Broadband Deployments And Sustaining Much Needed Support To High Cost Communities.

Importantly, the BIP promotes the Commission's goal of refocusing the program on broadband infrastructure.[7] One of the Commission's four guiding principles in this proceeding is to "modernize and refocus USF and ICC to make affordable broadband available to all Americans."[8] Given the nature of current communications infrastructure and the role of Internet services in daily life, we strongly support efforts to ensure that the USF supports 21st century telecommunications services, including broadband infrastructure. As the Commission has noted, "[u]biquitous broadband infrastructure has become crucial to our nation's economic development and civil life. Businesses need broadband to start and grow; adults need broadband to find jobs; children need broadband to learn. . . . As important as these benefits are in America's cities — where more than two-thirds of residents have come to rely on broadband — the distance-conquering benefits of broadband can be even more important in American's more remote small towns, rural and insular areas, and Tribal lands."[9] By basing support on broadband lines and

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[7] At this stage and in the Connect America Fund implementation, Hargray supports extensions of carrier of last resort obligations to broadband services, provided that proposals for expanding and/or increasing broadband are subject to concrete rules and are not subjective.

[8] *NPRM*, at para. 10.

[9] *Id*. at para. 3.

weighting the support mechanism in favor of higher speed lines, the BIP supports and promotes affordable broadband infrastructure.[10]

As the Commission details in the NPRM, despite the fact that we are well into the 21st century, today's USF support mechanisms are designed primarily to fund 20th century technology. Despite this design, many recipients, like Hargray, have used USF funds exactly in the manner this Commission is now focused on — by pursuing the development and deployment of advanced communications services through high cost areas of America. This investment not only permits recipients to maintain affordable, basic communications services and broadband services, it also fosters job growth and economic development within their communities. Rather than undercut the ability of these recipients to maintain and further develop advanced communication services in their communities, the Commission should partner with these recipients to ensure that its goals are quickly and successfully achieved. It should adopt a structure that does not represent a risky start over, but instead provides a bridge to further reform while aligning the incentives of recipients with the goals of the Commission.

USF recipients have developed and maintained robust backbone networks over which wireline *and* wireless data and voice traffic traverses; have proven, over many decades, their dedication and ability to maintain and invest in communications infrastructure critical to the

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[10] As the NPRM makes clear, the Commission has legal authority to extend universal service to broadband services — including both voice services and services that traditionally have been considered information services. The Communications Act defines "universal service" as "an *evolving* level of telecommunications services that the Commission shall establish . . . taking into account *advances in telecommunications and information technologies and services*." 47 U.S.C. § 254(c)(2) (emphasis added). Moreover, one of the six "universal service principles" established by Congress — and which the Commission is directed by statute to consider in developing policies in connection with the Universal Service program — provides that "[a]ccess to advanced telecommunications and information services should be provided in all regions of the Nation." 47 U.S.C. § 254(b)(2).

economic progress of the communities they serve; and have helped create and sustain thousands of jobs in their communities. In Hargray's case, as in many others, USF-supported investment in broadband and communications infrastructure has served as an economic catalyst in its community. Communications infrastructure creates jobs and economic opportunities for individuals, small businesses, and communities, including, for example, allowing the formation of small businesses in rural areas and resulting in the employment of substantial numbers of numbers of individuals.[11] As the Commission has recognized, "[b]roadband is becoming a prerequisite to economic opportunity for individuals, small businesses and communities."[12] That is unquestionably true, which is why broadband in non-urban communities remains vital. The continued development and maintenance of our communications infrastructure is critical "to ensure that America has a world-leading broadband ecosystem."[13]

The continued maintenance and development of broadband infrastructure in these communities is essential not only to the successful deployment of wireline broadband services, but also of wireless voice and broadband services. As researchers have noted, "wireless networks are mostly wireline in their infrastructure."[14] Continued support for investment and maintenance of the wireline infrastructure enabling those communications is essential to achieving the Commission's objectives for both wireline and wireless broadband.

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[11] *See National Broadband Plan* ("*NBP*") at § 13.0.

[12] *See id.* at § 2.

[13] *See id.* at § 2.

[14] *Rysavy Research, LLC & 3G Americas, Transition to 4G: 3GPP Broadband Evolution to IMT-Advanced*, at 10 (Sept. 2010) ("The fact is that wireless networks are mostly wireline in their infrastructure."); *see also* Kurt Leedy, *A Deeper Look Into Cloud Computing, Investment Dealers' Digest*, at 22 (Mar. 4, 2011) (noting that 90 percent of wireless data traffic runs over wireline networks).

Many of the proposals put forth in this proceeding ignore these advances and the established capabilities of current USF recipients and focus on reducing the amount of support paid to existing recipients. Such approaches run counter to the objectives of this Commission by jeopardizing the maintenance of infrastructure required for ubiquitous wireline and wireless broadband (not to mention further investment in such infrastructure), and risk job and economic growth in the communities served by those companies. By compromising the ability of carriers to maintain existing investments and make further investments in both broadband and basic communications infrastructure in rural and high cost America, these proposals fail to meet the Commission's objectives in this proceeding. In contrast, the BIP leverages the benefits provided by the existing program and provides a mechanism to shift those positives toward spreading reliable and robust broadband services throughout America.

C. The Commission Should Adopt Reforms That Promote, Not Stymie, Investment In Broadband And Communications Infrastructure.

The BIP also migrates away from a structure that ties levels of support to the amount spent by the carrier as opposed to the services provided to the end user. The Commission has said that it wants to promote efficiency and transition to "market-driven and incentive based policies that encourage technologies and services that maximize the value of scarce program resources and the benefits to all consumers."[15] Under the BIP, levels of support are decoupled from expenses and are instead directly tied to the voice and high speed data services actually provided to end users. This structure encourages prudent investment in the network and incents recipients to become more efficient. Tying support to broadband lines actually provided to consumers encourages companies to not only build broadband networks, but also to build them

[15] *NPRM*, at para 10.

where customers want them and to price services on those networks so as to spur adoption. As the Commission well knows, broadband *adoption* has lagged behind broadband *deployment*.[16] By refocusing the USF on the adoption of broadband, the BIP enables the *affordable* provision of broadband services to residents and businesses and instills the market discipline that the Commission is seeking.

Further, by linking support levels to actual services purchased by consumers, the BIP allows the market rather than regulators to determine the pace and direction of the USF program's transition to a broadband fund. If, as the Commission predicts, consumers move entirely to broadband, then 100 percent of the fund will support high speed data lines. If pockets or categories of consumers continue to purchase voice services, then a portion of the fund will continue to support voice. While the broadband weighting factor will put a slight emphasis on more advanced communications services, funding will generally be allocated between voice and broadband in accordance with consumer demand.

D. The BIP Will Manage The Size Of The USF And The Burdens Associated With The Program.

Hargray has proposed a bridge framework that helps control the growth of the program and decouples the amount of support from the amount spent by the carrier. The Commission has said that it is seeking to"[c]ontrol the size of the USF as it transitions to support broadband, including by reducing waste and inefficiency."[17] We recognize that the system, especially support going to eligible telecommunications carriers, has been growing at a rapid rate. The

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[16] National Exchange Carrier Association, *A Report On Rural Telecom Technology*, at 4 (2010) (noting that broadband adoption is lagging behind deployment rates and that cost of subscribing to broadband service is significant reason for non-adoption).

[17] *Id.*

component of the fund that supports telecommunications service in high-cost areas has grown from $2.6 billion in 2001 to $4.3 billion in 2010.[18] That growth makes understandable the Commission's goal of implementing reforms to the program that give the Commission control over the growth of the fund. Our proposal, which freezes USF support for carriers on a per access line/per high speed data line basis, imposes meaningful constraints on the growth of the program.

The BIP would provide carriers with a known level of support based on 2011 levels, adjusted based on the number of voice and high speed data lines maintained. Accordingly, voice providers that face decreasing access lines (as almost all are) and are not investing in and deploying high speed data services to a wider portion of the population in their study areas will experience a decline in support. Based on access line trends, only those carriers that are aggressively building out infrastructure and delivering *affordable* broadband to their residents and businesses will be able to sustain levels of support at or near their current levels.[19] Thus, the BIP directly shifts funding from voice-only services to more advanced communications services, and the only way the levels of funding currently experienced in the USF program will be sustained is if the Commission's objective of promoting wider broadband adoption is achieved.

In addition, the BIP eases the administrative burden associated with the program — for both the Commission and USF recipients. The current structure and many of the proposed

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[18] *NPRM*, at para. 6.

[19] *See* Wireline Competition Bureau, Federal Communications Commission, *Trends In Telephone Service*, at Table 7.1 (showing decreases in wireline telephone lines each year since 2001); *see also id.* at ch. 7 ("Until 2000, line growth over time, averaging about 3% per year, has historically reflected growth in the population and the economy. Since then, the number of lines provided by wireline carriers has declined, likely due to some consumers substituting wireless service for wireline service, and some households eliminating second lines when they move from dial-up Internet service to broadband service.").

reforms require substantial carrier resources and bureaucracy to manage and administer.[20] Recipients are required to make detailed cost filings on at least an annual if not a quarterly basis. The BIP substantially reduces this burden. Carriers could operate on an estimated basis for line counts subject to a periodic true-up process administered by the Universal Service Administrative Company ("USAC") or the National Exchange Carrier Association ("NECA"). Hargray contemplates that that the timing and process would be similar to submission of actual and estimated revenues on Forms 499Qs and As.

The simplification of the program vastly increases the ability of the Commission to gain "accountability from companies receiving support, to ensure that public investments are used wisely to deliver intended results."[21] By eliminating the complex expense-based structure, the BIP limits the variables that must be reported and monitored. Audits will no longer be multi-week arduous processes, but will instead involve only the verification of line counts — a relatively simple subcomponent of current audit procedures.

CONCLUSION

The Commission recognizes that it must balance a number of important and possibly competing priorities. To achieve this careful balance, Hargray has proposed to freeze high cost support at 2011 levels on a per access line and per broadband line basis. This proposal will eventually tilt support toward higher bandwidth offerings. This plan — which would be easy to implement and administer relative to the current program — not only ensures the reliability,

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[20] *See* Universal Service Administrative Company ("USAC"), FCC Filings, at http://www.usac.org/about/governance/fcc-filings/ (last visited May 20, 2011) (detailing administrative responsibilities of USAC); USAC, High Cost: Incumbent Carriers, at http://www.usac.org/hc/incumbent-carriers/ (last visited May 20, 2011) (outlining line count, cost, and certification filing obligations of incumbent carriers).

[21] *NPRM*, at para. 10.

stability, and predictability of the program, but also proposes an interim framework that controls the growth of the program and sends the right incentives for efficient operations. Moreover, this proposal refocuses the program on broadband infrastructure — one of the Commission's guiding principles in this proceeding.

These comments are hereby

Respectfully Submitted,

Gerard J. Waldron
Elizabeth Canter
Covington & Burling LLP
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
Tel: (202) 662-6000
Fax: (202) 778-5444

Counsel for Hargray Telephone Company

David H. Armistead
General Counsel
Hargray Telephone Company
856 William Hilton Parkway
Hilton Head Island, SC 29938
Tel: (843) 686-1123
Fax: (843) 686-1373

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Attachment A

Description of Broadband Incentive Plan

- The following items would be frozen on a per line basis using final 2011 calendar year data.
  - Interstate Common Line Settlement. "2011 ICLS" will be based on revenue requirement from final cost study completed by 7/31/11.
  - High Cost Loop Support. "2011 HCLS" will be based on final cost study completed by 7/31/11.
  - Local Switching Support. "2011 LSS" will be based on revenue received from USAC for the calendar year 2011.
  - Safety Net Additive. "2011 SNA" will be based on revenue received from USAC for the calendar year 2011.
- Companies submit finalized cost studies by 7/31/2012.
- Companies submit average rate per line calculation using 12/31/11 1.3 Loop Count Worksheet, FCC Form 477 (from 12/31/11 to USAC by 8/31/12).
  - 2011 ICLS / (1.3 Loops + Broadband Lines with speeds >765Kbps<1.5Mbps + Broadband Lines with speeds ≥1.5Mbps <3Mbps * 1.2 + Broadband Lines with speeds ≥ 3Mbps <6Mbps * 1.4 + Broadband Lines with speeds ≥ 6Mbps <10Mbps * 1.6 + Broadband Lines with speeds ≥ 10Mbps <25Mbps * 1.8 + Broadband Lines with speeds ≥ 25Mbps * 2) = base ICLS per line
  - 2011 HCLS / (1.3 Loops + Broadband Lines with speeds >765Kbps<1.5Mbps + Broadband Lines with speeds ≥1.5Mbps <3Mbps * 1.2 + Broadband Lines with speeds ≥ 3Mbps <6Mbps * 1.4 + Broadband Lines with speeds ≥ 6Mbps <10Mbps * 1.6 + Broadband Lines with speeds ≥ 10Mbps <25Mbps * 1.8 + Broadband Lines with speeds ≥ 25Mbps * 2) = base HCLS per line
  - 2011 LSS / (1.3 Loops + Broadband Lines with speeds >765Kbps<1.5Mbps + Broadband Lines with speeds ≥1.5Mbps <3Mbps * 1.2 + Broadband Lines with speeds ≥ 3Mbps <6Mbps * 1.4 + Broadband Lines with speeds ≥ 6Mbps <10Mbps * 1.6 + Broadband Lines with speeds ≥ 10Mbps <25Mbps * 1.8 + Broadband Lines with speeds ≥ 25Mbps * 2) = base LSS per line
  - 2011 SNA / (1.3 Loops + Broadband Lines with speeds >765Kbps<1.5Mbps + Broadband Lines with speeds ≥1.5Mbps <3Mbps * 1.2 + Broadband Lines with speeds ≥ 3Mbps <6Mbps * 1.4 + Broadband Lines with speeds ≥ 6Mbps <10Mbps * 1.6 + Broadband Lines with speeds ≥ 10Mbps <25Mbps * 1.8 + Broadband Lines with speeds ≥ 25Mbps * 2) = base SNA per line
- Going forward, per line support will be calculated as follows:
  - Voice line – 1:1 using 1.3 loop count worksheet
  - Broadband lines – Using 12/31/11 FCC Form 477 filed March 31, 2012

- ≥ 768Kbps <1.5Mbps = 1 Line
- ≥ 1.5Mbps <3Mbps = 1.2 Lines
- ≥ 3Mbps <6Mbps = 1.4 Lines
- ≥ 6Mbps <10Mbps = 1.6 Lines
- ≥ 10Mbps <25Mbps = 1.8 Lines
- ≥ 25Mbps = 2 Lines

- Companies submit estimated line count for 1/1/13 through 3/30/13 by 9/30/12 with subsequent quarterly filings for future periods.
- Annual line count filing due by 3/30/xx of each year containing actual results.
- USAC sends additional payments, deducts from existing payments, or issues invoice to correct to actual numbers.
- Example: 2011 USF – ICLS = $2,000, LSS = $1,000 HCLS = $3,000, or $6,500 Total
    - 12/31/11 Lines = 100 1.3 loops, 2 768Kbps lines, 3 1.5Mbps lines, 4 5Mbps lines, 5 7Mbps lines, 6 12 Mbps lines, 1 30Mbps line
    - 2011 Weighted Line Count = 100+2+3*1.2+4*1.4+5*1.6+6*1.8+1*2 = 132
    - 2011 Avg. USF per Weighted Line $6,500/132=$49.2424
    - 12/31/12 Line = 90 1.3 loops, 2 768Kbps lines, 3 1.5Mbps lines, 4 5Mbps lines, 5 7Mbps lines, 6 12 Mbps lines, 2 30Mbps line
    - 2012 Weighted Line Count = 90+2+3*1.2+4*1.4+5*1.6+6*1.8+2*2 = 124
    - 2012 USF = 124*$49.2424 = $6,106